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STATEMENT OF
HENRY ESCHWEGE, DIRECTOR
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE
SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT,
AND RELATED AGENCIES
SENATE COMMITTEE ON APPROPRIATIONS

ON



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GENERAL ACCOUNTING OFFICE [REVIEWS OF
DEPARTMENT OF AGRICULTURE ACTIVITIES]

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE ARE HERE TODAY AT YOUR INVITATION TO PROVIDE INFORMATION ON THE RESULTS OF SOME OF OUR REVIEWS DURING THE PAST YEAR RELATING TO DEPARTMENT OF AGRICULTURE ACTIVITIES AND TO OFFER OUR VIEWS ON THE PRESIDENT'S PROPOSED BUDGET REDUCTIONS AFFECTING THE DEPARTMENT AND THE AGRICULTURAL INDUSTRY. I WILL HIGHLIGHT THE MAJOR ISSUES INVOLVED. THE APPENDIX TO MY STATEMENT PROVIDES ADDITIONAL INFORMATION FOR THE RECORD.

DAIRY PROGRAM AND PARITY CONCEPT

ONE PROGRAM THAT WE REPORTED ON AND THAT THE PRESIDENT HAS PROPOSED CHANGES IN, IS THE DAIRY PRICE-SUPPORT PROGRAM. THE EXISTING PARITY-BASED PROGRAM, WITH TWICE-A-YEAR ADJUSTMENTS IN THE PARITY PRICE, HAS NOT ONLY RESULTED IN A MORE THAN ADEQUATE SUPPLY OF MILK BUT HAS CAUSED MILK AND DAIRY PRODUCT PRICES, AND GOVERNMENT COSTS, TO RISE TO HIGHER AND HIGHER LEVELS. WE REPORTED IN JULY 1980 THAT MOST OF THE INCREASE HAS RESULTED FROM THE PARITY PRICE FORMULA WHICH DOES NOT ADEQUATELY CONSIDER MANY

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ECONOMIC FACTORS AFFECTING MILK MARKET CONDITIONS AND INCLUDES SOME FACTORS THAT HAVE LITTLE TO DO WITH MILK PRODUCTION.

OUR REPORT DISCUSSED SOME ALTERNATIVE MILK-PRICING STANDARDS THAT COULD HELP SOLVE OR REDUCE THE SURPLUS PROBLEM AND MORE EFFECTIVELY AND EQUITABLY ACCOMPLISH PROGRAM OBJECTIVES. AMONG THESE ALTERNATIVES ARE A DAIRY PARITY PRICE STANDARD; A COST-OF-PRODUCTION STANDARD; AND A STANDARD BASED ON A COMPREHENSIVE FORMULA THAT WOULD SYSTEMATICALLY AND SIMULTANEOUSLY CONSIDER CHANGES IN PRODUCTION COSTS, MILK PRODUCT STOCKS, AND DEMAND. THE LAST OF THESE ALTERNATIVES HOLDS THE MOST PROMISE BUT RESEARCH NEEDS TO BE DONE BEFORE THIS APPROACH COULD BE USED. MEANWHILE, THE BASIS FOR SETTING THE SUPPORT PRICE COULD BE CHANGED TO EITHER A DAIRY PARITY PRICE STANDARD OR A COST-OF-PRODUCTION STANDARD. WE BELIEVE THE DAIRY PARITY PRICE STANDARD WOULD BE THE LEAST DISRUPTIVE TO THE INDUSTRY.

THE PRESIDENT HAS PROPOSED ELIMINATING THE MANDATORY APRIL 1, 1981, INCREASE IN THE DAIRY SUPPORT PRICE REQUIRED BY LAW AND PLANS TO INCLUDE LONG-TERM REFORMS IN THE DAIRY PROGRAM IN THE ADMINISTRATION'S COMPREHENSIVE FARM PROGRAM PACKAGE FOR THIS LEGISLATIVE SESSION. WE FAVOR THE PROPOSAL TO ELIMINATE THE MANDATORY APRIL 1, 1981, INCREASE.

IN ANOTHER REPORT, WE DISCUSSED THE BROAD SUBJECT OF PARITY AS A TOOL FOR FORMULATING AND EVALUATING AGRICULTURAL POLICY. ALTHOUGH ONLY A FEW FEDERAL PRICE-SUPPORT PROGRAMS, INCLUDING THE DAIRY AND TOBACCO PROGRAMS, ARE STILL LINKED TO PARITY, MANY POLICYMAKERS, FARMERS, AND FARM SUPPORT GROUPS REGARD PARITY AS A BAROMETER OF THE ECONOMIC HEALTH OF THE FARM SECTOR. WE CONCLUDED THAT PARITY IS USEFUL AS AN INDICATOR OF CERTAIN ASPECTS OF ECONOMIC WELL-BEING BUT THAT IT DOES NOT ADEQUATELY REFLECT

THE WELL-BEING OF THE TOTAL FARM SECTOR, THE TOTAL PERSONAL INCOME OF FARM FAMILIES, OR INCREASED FARM ASSETS AND EQUITIES. ALSO, IT MAY OR MAY NOT REFLECT AN INDIVIDUAL FARMER'S WELL-BEING.

WE SUGGESTED THAT THE CONGRESS AND OTHER POLICYMAKERS NEED, IN ADDITION TO PARITY, A BROADER FRAMEWORK TO USE IN DEVELOPING, ANALYZING, AND EVALUATING FARM POLICIES AND PROGRAMS. WE PRESENTED A CONCEPTUAL FRAMEWORK THAT COULD BE USED AS A STARTING POINT FOR SETTING UP A SYSTEMATIC METHODOLOGY FOR CONSIDERING THE IMPACT OF VARIOUS POLICY ALTERNATIVES.

OTHER FARM PRODUCTION AND MARKETING ACTIVITIES

THE FARMER-OWNED GRAIN RESERVE PROGRAM, THE SUSPENSION OF GRAIN SALES TO RUSSIA, AND GRAIN TRANSPORTATION MATTERS ARE AMONG OTHER FARM-RELATED ACTIVITIES WE REVIEWED THIS PAST YEAR. WE RECENTLY ISSUED A PARTIALLY CLASSIFIED REPORT ON FEDERAL MONITORING OF THE GRAIN SALES SUSPENSION AND THE SUSPENSION'S IMPACT ON THE SOVIET UNION. THE REPORT DISCUSSED HOW THE SOVIET UNION WAS ABLE TO SUBSTANTIALLY OFFSET ITS GRAIN IMPORT SHORTFALL BY INCREASING GRAIN IMPORTS FROM OTHER COUNTRIES, DRAWING DOWN ITS CARRYOVER GRAIN STOCKS, AND INCREASING IMPORTS OF NON-U.S. SUBSTITUTE FEEDS. ALTHOUGH THE SOVIET UNION SUBSTANTIALLY OFFSET THE GRAIN SHORTFALL, IT INCURRED HIGHER COSTS AND CONGESTED ITS PORT FACILITIES. WE WILL BE REPORTING IN THE NEAR FUTURE ON THE ACTIONS THE DEPARTMENT HAS TAKEN TO MITIGATE THE SUSPENSION'S EFFECTS ON U.S. FARMERS AND GRAIN EXPORTERS.

A REPORT ON THE FARMER-OWNED GRAIN RESERVE PROGRAM IS ALSO NEAR COMPLETION. OUR TENTATIVE CONCLUSIONS ARE THAT DURING ITS FIRST 2 TO 3 YEARS, THE RESERVE PROGRAM DID NOT ACHIEVE ITS OBJECTIVES OF INCREASING YEAR-END SUPPLIES, ELIMINATING GOVERNMENT STOCKS, AND STABILIZING PRICES. BUT A LONGER PERIOD OF OPERATION

IS NEEDED TO FULLY EVALUATE THE PROGRAM'S EFFECTIVENESS. AS WE SEE IT NOW, CERTAIN MODIFICATIONS SHOULD BE MADE TO ENHANCE THE PROGRAM'S POTENTIAL TO ACHIEVE ITS OBJECTIVES.

WE REPORTED LAST NOVEMBER THAT RAILROADS NEEDED TO MAKE BETTER USE OF THEIR FREIGHT CARS. WE SAID THAT, OVERALL, ENOUGH FREIGHT CARS ARE AVAILABLE, BUT THEY ARE NOT IN THE RIGHT PLACE AT THE RIGHT TIME. WE POINTED OUT, HOWEVER, THAT FREIGHT CARS WITH THE HIGHEST RATES OF UNFILLED ORDERS--40-FOOT, NARROW-DOOR BOXCARS AND COVERED HOPPER CARS--ARE BOTH USED EXTENSIVELY IN THE GRAIN TRADE AND THAT SHORTAGES OF THESE CARS ARE A SERIOUS PROBLEM FOR GRAIN SHIPPERS.

IN A REPORT NOW BEING FINALIZED, WE WILL BE POINTING OUT AREAS IN WHICH THE DEPARTMENT OF AGRICULTURE COULD MAKE GREATER USE OF USER CHARGES TO FUND SPECIAL BENEFIT SERVICES. MARKED DIFFERENCES NOW EXIST IN THE DEGREE TO WHICH RECIPIENTS BEAR THE COSTS ASSOCIATED WITH THE WIDE RANGE OF SPECIAL MARKETING AND REGULATORY SERVICES THE DEPARTMENT PROVIDES. AS A RESULT, CERTAIN SECTORS OF THE AGRICULTURAL MARKETING INDUSTRY ARE RECEIVING PREFERENTIAL TREATMENT AT TAXPAYERS' EXPENSE. IF RECIPIENTS WERE CHARGED FOR ALL COSTS EXCEPT THOSE WHICH CAN BE READILY IDENTIFIED WITH PUBLIC BENEFITS, THE CURRENT INCONSISTENCIES AND INEQUITIES WOULD BE ELIMINATED AND FEDERAL APPROPRIATIONS COULD BE REDUCED AS MUCH AS \$48 MILLION ANNUALLY FOR SUCH SERVICES AS GRAIN INSPECTION AND WEIGHING, COTTON CLASSING, TOBACCO AND NAVAL STORES GRADING, FOOD COMMODITIES GRADING, WAREHOUSE EXAMINATIONS, IMPORTED ANIMAL AND SEED INSPECTIONS, AND PLANT VARIETY CERTIFICATIONS.

IN MOST CASES ELIMINATING THE INCONSISTENCIES AND INEQUITIES WILL REQUIRE CONGRESSIONAL ACTION--A NEW OR AMENDED GENERAL USER CHARGE STATUTE, AMENDMENTS TO THE FUNDING PROVISIONS OF SOME

PROGRAM ACTS, AND REPEAL OF OTHER PROGRAM ACTS. FURTHER DEPARTMENT STUDY IS NEEDED, HOWEVER, TO DETERMINE APPROPRIATE FUNDING POLICIES FOR SOME SERVICES. THE PRESIDENT'S REVISED BUDGET, SUBMITTED TO THE CONGRESS ON MARCH 10, PROPOSES MANY OF THE USER FEE CHANGES WE ARE RECOMMENDING.

RESEARCH AND EXTENSION ACTIVITIES

IN THE RESEARCH AND EXTENSION AREA, WE ARE EVALUATING THE ECONOMY, EFFICIENCY, AND PROGRAM EFFECTIVENESS OF THE NATIONWIDE COOPERATIVE EXTENSION SYSTEM. WE HAVE ALSO BEEN REVIEWING THE MANAGEMENT AND DIRECTION OF THE NATIONAL PLANT GERMPLASM SYSTEM.

THE NATION'S CROPS ARE VULNERABLE TO DAMAGE FROM DISEASE, INSECTS, AND ADVERSE WEATHER CONDITIONS BECAUSE OF THE LACK OF GENETIC VARIABILITY WITHIN THE MAJOR CROPS. THE DEPARTMENT OF AGRICULTURE, WHICH IS CHARGED WITH PROTECTING CROPS AGAINST THIS VULNERABILITY, HAS NEITHER FULLY DETERMINED THE RISKS OF SUCH VULNERABILITY NOR TAKEN ADEQUATE STEPS TO MINIMIZE IT. THIS IS LARGELY ATTRIBUTABLE TO DECENTRALIZED MANAGEMENT OF PLANT RESOURCES WHICH HAS EFFECTIVELY LIMITED THE DEVELOPMENT AND IMPLEMENTATION OF AN INTEGRATED PROGRAM. OUR TENTATIVE CONCLUSION IS THAT THE DEPARTMENT NEEDS TO CENTRALIZE CONTROL OVER PLANT GENETIC RESOURCES AND DEVELOP A COMPREHENSIVE PLAN TO ENHANCE THEIR USE.

FOOD ASSISTANCE AND NUTRITION ACTIVITIES

IN THE FOOD ASSISTANCE AREA, OUR REVIEWS HAVE COVERED SUCH THINGS AS COMMODITY PURCHASES FOR AND DONATIONS TO THE SCHOOL LUNCH AND OTHER FEEDING PROGRAMS AND ACTIVITIES UNDER PUBLIC LAW 480. OUR REPORT ON COMMODITY PURCHASES AND DONATIONS, WHICH IS NOW WITH THE DEPARTMENT FOR COMMENT, WILL DISCUSS AMONG OTHER THINGS THE NEED FOR BETTER DATA ON WHICH TO BASE PURCHASES, THE NEED TO BETTER ASSESS THE PURCHASES' EFFECTS ON THE MARKET,

IMPROVEMENTS NEEDED TO AVOID EXCESS INVENTORIES AT STATE AND LOCAL LEVELS, AND THE NEED FOR MORE ADEQUATE PROGRAM MONITORING BY STATE DISTRIBUTING AGENCIES AND BY THE DEPARTMENT.

THE CONGRESS HAS BEEN EMPHASIZING EFFORTS TO REDUCE FRAUD AND WASTE IN FEDERAL PROGRAMS. WE ISSUED A REPORT IN MAY 1980 ON THE STATUS OF CORRECTIVE ACTIONS TAKEN ON PAST RECOMMENDATIONS IN 17 OF OUR REPORTS DEALING WITH FRAUD, ABUSE, AND MISMANAGEMENT IN SEVERAL FOOD ASSISTANCE PROGRAMS ADMINISTERED BY AGRICULTURE. RECOMMENDATIONS DEALT WITH THE FOOD STAMP, SCHOOL LUNCH, SUMMER FEEDING, AND COMMODITY DISTRIBUTION PROGRAMS--PROGRAMS BUDGETED AT OVER \$13 BILLION IN FISCAL YEAR 1981.

SOME SIGNIFICANT IMPROVEMENTS WERE APPARENT IN THE SUMMER FOOD SERVICE PROGRAM AND THE REGULATION OF RETAILERS ACCEPTING FOOD STAMPS, BUT MORE ARE NEEDED TO CORRECT (1) SCHOOL LUNCHES NOT MEETING NUTRITIONAL GOALS, (2) WEAK EFFORTS TO IDENTIFY AND RECOVER SIGNIFICANT LOSSES CAUSED BY FOOD STAMP OVERISSUANCES, (3) POOR IMPLEMENTATION OF FOOD STAMP WORK REGISTRATION REQUIREMENTS, AND (4) FOOD STAMP FRAUD AND ABUSE IN DISASTER SITUATIONS. SOME LONG OVERDUE ACTIONS HAVE BEEN INITIATED TO OVERCOME PROBLEMS, BUT NOT MUCH HAD BEEN ACCOMPLISHED AT THE TIME OF OUR FOLLOWUP. OUR EFFORTS IN SEVERAL OF THESE AREAS ARE CONTINUING. MUCH OF OUR FUTURE WORK WILL FOCUS ON THE ACCOUNTABILITY, INTEGRITY, AND GENERAL ADMINISTRATION OF THE FOOD STAMP PROGRAM.

EARLIER THIS MONTH WE ANALYZED A RECENT JOINT REPORT THAT THE DEPARTMENT'S OFFICE OF INSPECTOR GENERAL (OIG) AND FOOD AND NUTRITION SERVICE HAD ISSUED ON FRAUD AND ABUSE IN CHILD NUTRITION PROGRAMS--SPECIFICALLY, THE SCHOOL LUNCH PROGRAM. THE REPORT INCLUDED OIG ESTIMATES THAT THE DOLLAR IMPACT OF PROGRAM DEFICIENCIES IT UNCOVERED WOULD AMOUNT TO HUNDREDS OF MILLIONS

OF DOLLARS A YEAR. WE HAD SOME RESERVATIONS ABOUT THE METHODOLOGY USED TO ARRIVE AT THESE DOLLAR PROJECTIONS. NEVERTHELESS, WE CONCLUDED THAT THE OIG REVIEW HAD HIGHLIGHTED VERY SERIOUS AND EXTENSIVE PROBLEMS ABOUT THE INTEGRITY OF SCHOOL FEEDING PROGRAMS.

THE PRESIDENT'S PROPOSED BUDGET REDUCTIONS INCLUDE ELIMINATING OVERLAPPING SCHOOL MEAL AND FOOD STAMP SUBSIDIES AND ELIMINATING SCHOOL MEAL SUBSIDIES FOR MIDDLE AND UPPER INCOME HOUSEHOLDS. IN A JUNE 1978 REPORT, WE POINTED OUT NOT ONLY THE OVERLAP BETWEEN FOOD STAMP AND SCHOOL MEAL BENEFITS BUT OTHER OVERLAPS INVOLVING SUCH PROGRAMS AS THE FREE SPECIAL MILK PROGRAM; THE SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN; THE SUMMER FOOD PROGRAM; AND THE CHILD CARE FOOD PROGRAM.

WE HAVE BEEN CONCERNED ABOUT THE IMPACT THAT ELIMINATING SCHOOL MEAL SUBSIDIES WOULD HAVE ON CHILDREN AND HAVE COMMENTED ON SIMILAR PREVIOUS PROPOSALS THAT THE DEPARTMENT COULD NOT DETERMINE THE NUTRITIONAL IMPACT ON THOSE CHILDREN WHO WOULD NO LONGER PARTICIPATE AS A RESULT OF DECREASED SUBSIDIES. ALSO, ONE POSSIBILITY MIGHT BE THAT CUTS IN PREDOMINANTLY HIGH INCOME SCHOOL DISTRICTS COULD RESULT IN SO FEW CHILDREN EATING SCHOOL LUNCHESES THAT IT WOULD BE PROHIBITIVELY EXPENSIVE TO CONTINUE FOOD OPERATIONS FOR A SMALL NUMBER OF NEEDY CHILDREN.

OUR REVIEW OF THE TITLE III, P.L. 480, FOOD FOR DEVELOPMENT PROGRAM, WHICH WE ANTICIPATE REPORTING ON IN MAY, IS DIRECTED AT ASSESSING WHY THE PROGRAM HAS NOT BEEN USED MORE EXTENSIVELY TO INCREASE THE DEVELOPMENTAL IMPACT OF THE ANNUAL BILLION DOLLAR CONCESSIONAL FOOD AID PROGRAM. ISSUES BEING ADDRESSED RELATE TO DIFFICULTIES IN COMPLYING WITH A MYRIAD OF COMPLEX REQUIREMENTS AND IN ARRIVING AT AN INTERAGENCY CONSENSUS ON PROGRAM

ADMINISTRATION. WE ARE ALSO LOOKING AT WHETHER THE PROGRAM'S CURRENT FORMAT OFFERS MUCH POTENTIAL FOR ACHIEVING THE LEGISLATIVE OBJECTIVES.

LAST DECEMBER WE REPORTED ON COMPETITION AMONG SUPPLIERS IN THE P.L. 480 CONCESSIONAL FOOD SALES PROGRAM. THERE WAS CONCERN THAT SEVEN MAJOR GRAIN WHOLESALERS HAD GARNERED MOST OF THE FEDERALLY FINANCED TITLE I GRAIN SALES TO DEVELOPING COUNTRIES. WE FOUND THAT PROGRAM REGULATIONS BASICALLY AFFORD ALL SUPPLIERS AN ADEQUATE AND FAIR OPPORTUNITY TO PARTICIPATE IN THESE SALES BUT THAT FOR A VARIETY OF REASONS, FARMER COOPERATIVES AND FIRMS OTHER THAN THE SEVEN MAJOR WHOLESALERS COMPETED ONLY SPORADICALLY FOR THESE SALES.

WE DISCUSSED TWO POSSIBLE APPROACHES TO CHANGING THE LEGISLATION TO BROADEN SUPPLIER COMPETITION, BOTH OF WHICH WOULD INVOLVE SETTING ASIDE, OR RESERVING, A PORTION OF THE SALES FOR SMALL OR SMALLER BUSINESSES AND/OR COOPERATIVES. WE CONCLUDED, HOWEVER, THAT BECAUSE EITHER APPROACH WOULD CHANGE THE PROGRAM'S BASIC "MARKET" PHILOSOPHY AND COULD LEAD TO SUCH DISADVANTAGES AS HIGHER PROGRAM COSTS IN THE SHORTER RUN, FURTHER STUDY WAS NEEDED. WE RECOMMENDED CHANGES IN EXISTING PROGRAM REQUIREMENTS AND PROCEDURES TO OVERCOME BARRIERS TO GREATER SUPPLIER COMPETITION.

IN THE NUTRITION AREA, WE REPORTED THIS PAST YEAR ON IMPROVEMENTS NEEDED IN THE EXPANDED FOOD AND NUTRITION EDUCATION PROGRAM. THESE INCLUDED THE NEED TO DEVELOP AND TEST VARIOUS INNOVATIVE METHODS FOR REACHING MORE FAMILIES WITHIN THE CONSTRAINTS OF AVAILABLE RESOURCES AND THE NEED TO DEVELOP OR ENCOURAGE BETTER COMMUNICATION ALTERNATIVES, STANDARDS, AND EVALUATION TOOLS TO DEMONSTRATE THE PROGRAM'S EFFECTIVENESS, STRONGER PROGRAM ADMINISTRATION, AND INCREASED COORDINATION WITHIN THE PROGRAM AND WITH OTHER NUTRITION PROGRAMS.

OUR CURRENT WORK INCLUDES AN EVALUATION OF THE COHERENCE OF FEDERAL AGENCIES' EFFORTS TO SEE THAT THE PUBLIC RECEIVES ADEQUATE AND ACCURATE INFORMATION ABOUT FOOD AND A REVIEW OF THE INNOVATIVE APPROACHES THAT SOME HIGH SCHOOLS HAVE TAKEN TO IMPROVE THE EFFECTIVENESS OF THEIR SCHOOL LUNCH PROGRAMS.

CONSERVATION AND WATER RESOURCES

WE ARE COMPLETING A REVIEW TO ASSESS THE RESOURCE CONSERVATION AND DEVELOPMENT PROGRAM. IN ITS 1980 BUDGET REQUEST, THE DEPARTMENT PROPOSED TO PHASE OUT THIS PROGRAM. THE SOIL CONSERVATION SERVICE PROVIDES UNDER THIS PROGRAM TECHNICAL AND FINANCIAL ASSISTANCE TO LOCAL SPONSORS TO PREPARE AREA PLANS FOR RESOURCE CONSERVATION AND ECONOMIC IMPROVEMENT AND TO PLAN AND INSTALL COMMUNITY-TYPE CONSERVATION PROJECTS OR MEASURES. THE APPROPRIATIONS COMMITTEES REJECTED THE PHASE-OUT PROPOSAL AND IN THE CONFERENCE REPORT ON AGRICULTURE'S APPROPRIATIONS CALLED ON GAO TO REVIEW THE PROGRAM. THE OBJECTIVES OF THIS PROGRAM HAVE BEEN BROADENED FROM AN INITIAL FOCUS ON LAND CONSERVATION AND UTILIZATION TO VIRTUALLY ANY KIND OF PROJECT OR EFFORT THAT COULD IMPROVE THE QUALITY OF LIFE FOR RESIDENTS OF APPROVED PROJECT AREAS.

PROJECT OBJECTIVES ARE VIRTUALLY OPEN-ENDED, PROGRAM BENEFITS ARE DIFFICULT TO PIN DOWN, AND ACCURATE COST INFORMATION IS NOT AVAILABLE. THE REPORT RESULTING FROM OUR WORK WILL RAISE QUESTIONS ABOUT THE ATTRIBUTION OF CERTAIN REPORTED BENEFITS TO THE PROGRAM, THE POSSIBILITY OF A SYSTEM OF DEAUTHORIZING PREVIOUSLY ESTABLISHED PROJECTS, AND WHETHER PROGRAM ACTIVITIES COULD BE CARRIED OUT UNDER OTHER FEDERAL PROGRAMS OR BY OTHER DELIVERY SYSTEMS, SUCH AS SUB-STATE AGENCIES. ABOUT HALF THE FUNDS HAVE BEEN USED TO PROVIDE COST SHARING ON LOCAL PROJECTS FOR WHICH OTHER FEDERAL FUNDING SOURCES ARE NORMALLY AVAILABLE. IN COMMENTING ON POTENTIAL

BUDGET CUTS NOT INCLUDED IN THE PRESIDENT'S FEBRUARY 18 PROPOSAL, WE SUGGESTED THAT THE CONGRESS CONSIDER WHETHER THE COST-SHARING PORTION OF THE RESOURCE CONSERVATION AND DEVELOPMENT PROGRAM, WHICH AMOUNTED TO ABOUT \$15 MILLION IN FISCAL YEAR 1980, SHOULD BE DELETED.

LAST NOVEMBER WE REPORTED ON THE NEED FOR THE CONGRESS TO CLARIFY ITS INTENT REGARDING COST SHARING FOR FUTURE WATER RESOURCE PROJECTS THAT PROVIDE SIGNIFICANT SPECIAL LOCAL BENEFITS. FOR THE PROJECTS WE REVIEWED, INCLUDING SIX SOIL CONSERVATION SERVICE PROJECTS, THE NON-FEDERAL ENTITY WAS SELDOM REQUIRED TO INCREASE ITS SHARE TO COMPENSATE FOR SUCH SPECIAL BENEFITS AS LAND ENHANCEMENT OR INCREASED LOCAL TAXES. ALSO, THE SERVICE INCLUDED THE VALUE OF LAND TREATMENT MEASURES AS A PROJECT COST AND AS PART OF THE NON-FEDERAL CONTRIBUTION. LAND TREATMENT, ALTHOUGH IMPORTANT, IS VOLUNTARY AND IS THE LANDOWNER'S RESPONSIBILITY. ALSO, THE SERVICE HAS LITTLE OR NO CONTROL OVER WHETHER THE MEASURES ARE ACTUALLY IMPLEMENTED. ACCORDINGLY, WE CONCLUDED THAT THE COSTS OF ONLY THOSE ACCELERATED AND CRITICAL MEASURES WHOSE APPLICATION CAN BE ENSURED BEFORE PROJECT CONSTRUCTION SHOULD BE INCLUDED AS PART OF PROJECT COSTS.

THE PRESIDENT HAS PROPOSED A DELAY IN COMPLETING CONSTRUCTION OF SOME WATER RESOURCE DEVELOPMENT PROJECTS, INCLUDING SOME SOIL CONSERVATION SERVICE PROJECTS. THIS WILL LIKELY RESULT IN INCREASING CONSTRUCTION COSTS, DEPENDING ON THE RATE OF PRICE ESCALATION, BUT THE COST INCREASE WOULD BE OFFSET TO THE EXTENT THE TREASURY COULD REDUCE ITS BORROWING AT CURRENT HIGH INTEREST RATES.

RURAL CREDIT PROGRAMS

THE PRESIDENT ALSO WANTS TO REDUCE DIRECT LENDING BY THE FEDERAL FINANCING BANK TO RURAL ELECTRIC GENERATION AND TRANSMISSION

COOPERATIVES AND TO TELEPHONE COMPANIES AND COOPERATIVES. IN ADDITION, THE ADMINISTRATION PLANS TO SEEK LEGISLATION TO PERMIT HIGHER INTEREST RATES ON LOANS MADE BY THE RURAL ELECTRIFICATION ADMINISTRATION (REA). THIS PAST NOVEMBER, WE RECOMMENDED THAT IN LINE WITH THE CONGRESS' DECLARED POLICY, REA SHOULD REQUIRE ELECTRIC GENERATION AND TRANSMISSION COOPERATIVES TO RELY MORE ON THE PRIVATE SECTOR FOR THEIR FINANCIAL RESOURCES. ALSO, IN A MAY 1980 REPORT, WE SAID THAT ALTHOUGH MANY RURAL ELECTRIC DISTRIBUTION SYSTEMS CONTINUE TO NEED REA INTEREST-SUBSIDIZED LOANS, OTHERS COULD QUALIFY FOR AND OBTAIN LONG-TERM CREDIT AT REASONABLE RATES AND TERMS FROM OTHER SOURCES AND STILL CHARGE ELECTRIC RATES COMPARABLE WITH THOSE OF THEIR URBAN COUNTERPARTS. WE POINTED OUT, HOWEVER, THAT REA LACKED CRITERIA FOR IDENTIFYING FINANCIALLY SOUND SYSTEMS ABLE TO QUALIFY FOR NON-REA CREDIT AND FOR DETERMINING WHETHER SUCH SYSTEMS NEED SUBSIDIZED LOANS TO CHARGE REASONABLE ELECTRIC RATES. WE ALSO SAID THAT REA COULD DO MORE TO ENCOURAGE BORROWERS TO ACHIEVE THE MINIMUM EQUITY LEVELS NECESSARY TO QUALIFY FOR PRIVATE CREDIT.

THE PRESIDENT HAS ALSO PROPOSED REDUCING THE FARMERS HOME ADMINISTRATION'S DIRECT LENDING ACTIVITIES. IN A JANUARY 1981 REPORT SUMMARIZING PAST REVIEWS AND AUDITS OF FARMERS HOME'S BUSINESS AND INDUSTRIAL LOAN PROGRAM, WE SAID THAT WE AND THE DEPARTMENT'S OFFICE OF INSPECTOR GENERAL HAD PREVIOUSLY REPORTED INADEQUATE REVIEWS OF LOAN APPLICATIONS, INADEQUATE SERVICING OF LOANS AND DELINQUENT ACCOUNTS, AND INADEQUATE REVIEWS OF BORROWERS TO DETERMINE IF THEY SHOULD BE GRADUATED TO COMMERCIAL CREDIT SOURCES. MANY OF THESE CONTINUING PROBLEMS WERE ATTRIBUTABLE TO THE IMBALANCE BETWEEN THE SIZE AND COMPLEXITY OF FARMERS HOME'S PROGRAMS AND THE SIZE AND SKILLS OF ITS STAFF.

WE CONCLUDED THAT IF FARMERS HOME WAS TO CORRECT PROGRAM DEFICIENCIES, IT WOULD NEED A BETTER BALANCE BETWEEN ITS STAFFING AND ITS PROGRAM ACTIVITIES. THIS COULD BE ACCOMPLISHED, OF COURSE, EITHER BY INCREASING THE STAFF OR, AS THE PRESIDENT HAS PROPOSED, REDUCING LENDING ACTIVITIES. WE WOULD POINT OUT, HOWEVER--BASED ON OUR WORK--THAT THE HOUSING AND WATER SYSTEM NEEDS OF RURAL AMERICA HAVE EXCEEDED THE FUNDS AVAILABLE TO SATISFY THEM.

ALTHOUGH WE HAVE NOT SPECIFICALLY REVIEWED FARMERS HOME'S ALCOHOL FUELS AND BIOMASS LOAN PROGRAM, OUR RECENTLY COMPLETED WORK ON THE USE OF ALCOHOL AS A MOTOR VEHICLE FUEL LEADS US TO BELIEVE THAT THE PRESIDENT'S JUSTIFICATION FOR TERMINATING FUNDS FOR BIOMASS-DERIVED ALCOHOL FUELS (THAT IS, ETHANOL) PROJECTS IS CORRECT. IN A JUNE 1980 REPORT, WE SAID THAT TECHNOLOGICAL PROBLEMS ARE NOT A MAJOR IMPEDIMENT TO THE EXISTING ETHANOL INDUSTRY--THE TECHNOLOGY TO BE EMPLOYED ON PROJECTS SUPPORTED BY THE FEDERAL FUNDING IN QUESTION IS WELL-PROVEN; THAT EXISTING TAX POLICIES ALREADY PROVIDE A MAJOR SUBSIDY TO ALCOHOL FUELS WHICH ARE MORE AND MORE COMPETITIVE WITH PETROLEUM-BASED FUELS; THAT EXCESSIVE ALCOHOL PRODUCTION FROM GRAIN CROPS COULD HAVE AN ADVERSE EFFECT ON FOOD PRICES; AND FINALLY THAT ANOTHER FORM OF ALCOHOL FUELS (METHANOL)--WHICH IS DERIVED PRIMARILY FROM COAL AND HENCE WOULD NOT BE AFFECTED BY THIS PROPOSED REDUCTION--HAS GREATER POTENTIAL THAN ETHANOL TO REPLACE GASOLINE.

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THIS HIGHLIGHTS SOME OF THE WORK WE HAVE DONE ON FOOD, AGRICULTURE, AND RELATED ACTIVITIES DURING THE PAST YEAR. WE HAVE, OF COURSE, PROVIDED THE CONGRESS A NUMBER OF OTHER STUDIES AND REPORTS AND WE HAVE SEVERAL OTHER REVIEWS UNDERWAY. MANY OF THESE ARE DISCUSSED IN THE APPENDIX TO THIS STATEMENT. ALTHOUGH WE TOO

ARE FACED WITH A CUTBACK OF OUR RESOURCES, WE WILL CONTINUE TO DEVOTE SUBSTANTIAL RESOURCES TO REVIEWS OF FOOD AND AGRICULTURAL ACTIVITIES AND WE APPRECIATE THIS SUBCOMMITTEE'S CONTINUING INTEREST IN OUR WORK.

THAT CONCLUDES MY STATEMENT, MR. CHAIRMAN. WE WILL BE GLAD TO RESPOND TO ANY QUESTIONS YOU MAY HAVE.